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CHILE STRUGGLES FOR NATIONAL RECOVERY

by

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with the aid of the Research Staff of the Foreign Policy Association

INDUSTRIALISM VS. LATIFUNDISMO

CHILE, long a model of order and stability among the republics of Latin America, has within recent years been the scene of repeated revolutions and frequent governmental changes. In 1932 political overturns succeeded one another so rapidly as to threaten the country with chronic turmoil. Internal disorder was accompanied by Chile's total default on its foreign debt, aggregating \$476,000,000.¹

This report will attempt not only to trace the course of events leading to the overthrow of General Ibáñez in 1931 and the revolutions of 1932, but to show the relation of Chile's political instability to its economic and social organization. The industrialization of the nitrate fields, the copper and coal mines and, to some degree, of the cities—a process greatly stimulated by the advent of foreign capital—complicated the simple and essentially feudal structure of Chilean society by the creation of an industrial proletariat and a small middle class. The growing strength of these groups challenged the political predominance long exercised by the landholding aristocracy and threatened the destruction of the traditional social and political alignment. The impact of these new forces was strengthened by the spread of popular education, and the unrest generated by the rapid and violent swings in the pendulum of national prosperity. Chile's economic life is largely governed by the fortunes of two exports—nitrate and copper—whose price and production vary with conditions in the world market. Demand for these exports has been subject to wide variations, particularly since the World War, and the market for nitrates has been seriously affected by the rise of synthetic production in Europe and the United States. The resulting strains on the nation's economy created economic and political tensions which were accentuated from without by the world crisis, and from within by the régime of repression imposed by the Ibáñez government. The revolutions of 1931 and 1932 were a natural,

if not an inevitable, result of this complex of forces.

Chile's population of 4,300,000 inhabits a narrow shoestring of land, hemmed in between the rocky peaks of the Andes and the shores of the Pacific Ocean. The country's average width is about 100 miles, but from north to south it extends 2,600 miles. As northern Chile is an arid desert rich only in nitrate and copper, and southern Chile is largely pastoral and forest, 70 per cent of the people live in the country's agricultural and industrial center. Minerals comprise a large proportion of the national wealth.²

For the first century of its independence, Chile's orderly progress provided a striking contrast to the more turbulent history of its sister republics. Until 1890 a series of Presidents representing the "forty families" of the landed aristocracy held power in firm hands.³ A clash between President Balmaceda and Congress led in 1891, however, to a civil war which resulted in defeat of the President and his subsequent suicide. The supremacy of Congress thus established restricted the opportunity of the executive for vigorous leadership and promoted in parliament a tendency toward irresponsible factionalism. Despite the indifference of Congress to the social and economic changes which were altering the traditional balance of power, political development continued to follow an orderly course.

During the latter half of the nineteenth century mining—nitrate, copper, coal and silver—attained important development, and served to create the beginnings of a capitalist class. One result of the revolution of 1891 was to transfer a large share of political control from the agrarian aristocracy to the new moneyed class. Industrialization continued at an increasing pace during the first three decades of the twentieth century. Capital invested in manufacturing industries, estimated at 44,000,000 pesos in 1900, had in-

1. Of this amount, \$288,000,000 was held by investors in the United States. Cf. República de Chile, *Exposición del Ministro de Hacienda sobre la situación de las Finanzas Públicas*, Oficina del Presupuesto, Folleto No. 30, Diciembre de 1931, p. 14.

2. Among the republics of South America, Chile stands seventh in size, fifth in population and third in wealth and resources. Clarence F. Jones, *South America* (New York, Holt, 1930), p. 109, 110.

3. For the political origins of this oligarchic system, cf. Paul Vanorden Shaw, *The Early Constitutions of Chile, 1810-1833* (New York, Chile Publishing Company, 1930).

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creased to 2,200,000,000 pesos by 1928.⁴ Foreign capital poured into the country acquiring control of nitrates, copper, iron and public utilities, and assuming a dominant position in every-day commerce. At the end of 1928 American investments in Chile were estimated at a total of \$618,000,000 and British investments at almost \$500,000,000.⁵

Industrial development fostered the growth of a middle class of professional men, technicians, mechanics and white-collar employees. The same process also brought into being an industrial proletariat, particularly in the cities and mining districts. This class, even more than the general population, was

affected by the varying fortunes of Chile's two leading exports—nitrate and copper—which were in turn influenced to a peculiar degree by the recurring depressions of modern capitalism. Consequently, periods of insecurity and unemployment accentuated industrial friction and the hardships experienced in the barren nitrate fields and mining camps. Active unrest, previously unknown among the peasants, was generated within the ranks of this proletariat, and foreign agitators preaching socialism and communism found a ready hearing.⁶ The mounting cost of living during the World War stimulated the discontent of the masses.

DICTATORSHIP AND REVOLUTION

In the 1920 presidential elections the middle and laboring classes gained their first national success by assuring the victory of Arturo Alessandri, a dynamic reformer whose gift of magnetic oratory had won him wide popular influence. His program called for the extension of democracy in political affairs—popular election of the President, strengthening of the executive, and granting of larger provincial autonomy. This last item represented a concession to the jealousy which the northern and southern sections of the country had long harbored against central Chile. To these planks was added a demand for sweeping social reforms—separation of church and state, religious toleration, expansion of public education, labor legislation, tax reform and national control of banks and insurance companies.⁷ Hampered by parliamentary opposition and handicapped by falling revenues due to the post-war depression, President Alessandri found himself unable to translate into legislation the reforms he had promised.

The new forces, however, were not to be denied. A series of bloodless revolutions between 1924 and 1927 deposed Alessandri and two succeeding Presidents, brought Alessandri back from Europe only to force his resignation, and swept away the old parliamentary order with its impotent factionalism. In February 1927 Carlos Ibáñez, who had previously served as Minister of War, was named head of the cabinet under President Figueroa. It soon became evident that he was the real chief of state. On May 4, 1927 Figueroa formally resigned and on May 22 Colonel Ibáñez was elected President, receiv-

ing 220,000 of the 230,000 ballots cast.⁸ The virtual unanimity of the poll suggested that government pressure had not been absent from the voting.

The army took a prominent part in all these changes. But the officers, aside from personal interest in questions of salary and promotion, functioned as an instrument of public opinion rather than a militarist force which was striving to seize direct control of the government. The army was believed to be relatively untainted by the prevailing political corruption, and included representatives of all political views. Many of the younger officers who supported Ibáñez leaned toward socialism.

RULE OF IBANEZ: 1927-1931

The rule of Ibáñez was a "veiled dictatorship," which to a large degree masked its power behind constitutional forms.⁹ The new administration began auspiciously, and by July 1929 nearly all the reforms in Alessandri's former program had been adopted. Public administration was made more efficient, although at the cost of considerable "bureaucratic inflation." The state assumed an active rôle in fostering and controlling economic life, and itself embarked in 1928 on a public works program involving a total expenditure of approximately 1,575,000,000 pesos.¹⁰ This program was to be financed by an extraordinary budget of 200,000,000 pesos a year for six years, the necessary revenues to be secured by long-term foreign loans. Demands from the navy for modernization and from the army for new equipment, together with other projects for industrial and agri-

4. César Fuenzalida Correa, "The Industrial Progress of Chile," *Chile Magazine* (New York), February 1931, p. 39-41.

5. Cf. Max Winkler, *Investments of United States Capital in Latin America* (Boston, World Peace Foundation, 1928), p. 98, 99.

6. For a more detailed analysis of these developments, cf. Carlos Keller R., *La Eterna Crisis Chilena* (Santiago, Editorial Nascimento, 1931), p. 9-26; also Benjamin Cohen, "The New Order in Chile" *Chile Pan-Am* (New York), October 1932, p. 98.

7. C. H. Haring, "Chilean Politics, 1920-1928," *Hispanic American Historical Review* (Durham, N. C.), February 1931, p. 3.

8. *Ibid.*, p. 15-23. Opponents of Ibáñez allege that he had long been manoeuvring to reach the presidency, and that he was responsible for forcing Alessandri's second resignation, as well as for Figueroa's withdrawal. It is charged that during the election campaign freedom of the press and of political assembly was suspended, and that Congressmen and labor leaders were deported or imprisoned.

9. Haring, "Chilean Revolution of 1931," cited, May 1933, p. 197.

10. The Chilean peso was then worth 0.1217 cents in United States currency.

cultural development, augmented the budget for these extraordinary expenditures, until Chile was finally spending 600,000,000 pesos annually, a figure far beyond the country's financial capacity. The loans necessary to fulfill this program were largely responsible for an increase of approximately \$186,000,000 in the public debt.¹¹

The dictator's program of efficiency in government, extension of public works and promotion of commercial prosperity and social welfare was counterbalanced by severe restriction of civil liberties. The régime drew its support chiefly from the army and government employees; it failed to organize general public opinion in its favor. Consequently, when opposition began to develop, it was met by repression. Leading antagonists were expelled from the country, the press was subsidized or muzzled, and an extensive espionage system introduced which irked the independent spirit of the Chileans. The congressional elections of 1929 were not contested and, as a result, a congress amenable to presidential control was elected.

During 1930, despite declines of 25 to 30 per cent in the exports of nitrate and copper, the world depression was felt less acutely in Chile than in many other countries. Government expenditures on the public works program helped to maintain internal prosperity. In the early months of 1931, however, the influence of conditions abroad made itself increasingly evident. The country, which enjoyed a favorable balance of trade of 740,000,000 pesos in 1928 and 677,000,000 in 1929, had an unfavorable balance of 72,000,000 pesos in 1930. This factor, together with the heavy charges imposed by the debt service, seriously depleted Chile's supply of foreign exchange. Gold fled from the Central Bank; the government sharply curtailed its expenditures, which further depressed business; and a bad harvest also contributed to the accumulation of economic ills.

Ibáñez, confronted by these mounting difficulties, appealed to the conservative politicians for help, and the Blanquier coalition cabinet took office on July 13. It announced an economy program, including drastic cuts for the army, navy and police. Freedom of the press was restored and political exiles were allowed to return. On July 18 Blanquier issued a blunt statement on national finances which revealed to the country for the first time the condition to which it had been brought by the Ibáñez loans. Chile's total debt, it was announced, amounted to approximately \$570,000,000,¹² requiring for interest and amortization about \$40,000,000. The

deficit for the current year was estimated at approximately \$18,000,000. On July 15 the government announced a moratorium on service of the foreign debt, due to its inability to remit the necessary foreign exchange. The equivalent of debt payments, however, was to be deposited in Chilean banks, awaiting improvement of the exchange situation. This plan was abandoned on August 18, when a complete moratorium was declared. Default was a severe blow to the national pride, for since 1840 Chile had met every foreign obligation.¹³

Despite this revelation of the country's disastrous financial condition, the cabinet's economy program and its budget cuts apparently aroused opposition on the part of the President. On July 21 the Blanquier ministry resigned, and was succeeded by a cabinet whose advent signified a return to military government. The students began street demonstrations of protest. Their initiative was supported by the medical and bar associations, and by strikes on the part of teachers, engineers, clerks and other workers. Unable or unwilling to crush this wave of popular opposition by force, General Ibáñez on July 26, 1931 surrendered power to the President of the Senate who, after naming Juan Esteban Montero head of the cabinet, resigned in Montero's favor, thus maintaining the constitutional proprieties. The revolution was a purely civilian movement, and was carried through with remarkable order.

A YEAR OF TURMOIL:

MONTERO, DAVILA AND BLANCHE

Elections were set for October 4, 1931. Montero, despite his own sincere opposition, was named by right-wing groups as their joint candidate against the left parties.¹⁴ A highly respected professor of law in the University of Chile, he had never previously held public office, save for participation in the short-lived Blanquier cabinet. His principal opponent in the campaign was former President Alessandri, whom he defeated by approximately 180,000 votes to 100,000.

With the Montero administration, the concept of government accepted in Chile before the World War was restored. Political control of economic life was to be reduced to a minimum. Increasingly difficult economic conditions, however, revealed the inadequacy of a *laissez-faire* policy. The revolutionary elements demanded something more aggressive than the President's program of strict economy in government expenditures, maintenance of the gold standard, projected resumption of payments on the foreign debt

11. Between December 31, 1927 and December 31, 1931. Cf. *Sinopsis Geográfico-Estadístico de la República de Chile—1933*, Dirección General de Estadística (Santiago), p. 301, 302.

12. Banco Central de Chile, *Boletín Mensual*, No. 42, August 1931, p. 112.

13. From 1880 to 1883, during the War of the Pacific, amortization payments were suspended, but there was no interruption in interest payments. Cf. Max Winkler, *Foreign Bonds: an Autopsy* (Philadelphia, Roland Swain Company, 1933), p. 60.

14. As a member of the Blanquier cabinet, Montero had taken a prominent part in the restoration of civil liberties and this action won him wide popularity.

and careful study of the nitrate industry. Montero's retention of the Ibáñez congress bred violent criticism. Unrest expressed itself in sporadic disorders.

On June 4, 1932, after only six months in office, Montero was overthrown by a revolution headed by Carlos Dávila and Colonel Marmaduke Grove. This movement represented something more than a military coup; it aimed at "a complete alteration of the social, political and economic order."^{14a} Congress was dissolved and the constitution suspended. Dávila had served as Ambassador to the United States under the Ibáñez administration and was known as a friend of foreign capital. He had devoted much of his time in Washington, however, to a study of Russia's experiment with communism. On May 3 he issued a long manifesto calling for a system of progressive state socialism.¹⁵ This socialism, he made clear, was not Marxist, and signified "social welfare made paramount." As opposed to the moderate program of Dávila, Colonel Grove favored extreme measures and his views were responsible for

the proposal to confiscate foreign money in the banks and transformation of the Central Bank into a state bank. Friction between the two tendencies in the government was not slow in developing, and on June 12 Dávila was forced out of office, only to return five days later and order the deportation of his rival, Grove, to Easter Island, 2,000 miles off the coast of Chile. The Central Bank was restored to its previous status. Unemployment was attacked by an increase in public expenditures, but financial difficulties forced the administration into currency inflation.

On September 13, 1932 a military uprising ended this attempt at social revolution, and forced Dávila to withdraw, in favor of his Minister of the Interior, General Bartolomé Blanche. This régime, however, proved temporary, and soon surrendered power to Chief Justice Oyanedel of the Supreme Court. During this troubled epoch, no political group had succeeded in holding office for more than a few months. The moderates had failed with Montero, the radicals with Dávila and Grove, and the military with General Blanche.

THE ALESSANDRI REGIME

Elections were held on October 30, and resulted in the choice of Arturo Alessandri for a six-year term. Although formerly considered a radical, he received a large measure of conservative support in this election, due to the fear that otherwise the extremism represented by Marmaduke Grove,¹⁶ his leading opponent, might triumph. The new President entered office on December 24, 1932 with a cabinet representing chiefly the country's moderates and conservatives. Among the problems confronting his administration, four stand out as meriting special consideration in this report: restoration of social and political stability, agrarian reform, economic recovery and the foreign debt. The last two questions involve factors which transcend national boundaries. Both economic reconstruction and resumption of debt payments have been rendered more difficult by the decline in exports—whose recovery depends largely on improvement in foreign demand.

ATTEMPTS TO RESTORE STABILITY

In contrast with the turbulent history of 1932, Chile was peaceful and quiet during 1933. Rumors of revolt, however, were frequent. President Alessandri ruled throughout much of his first year with "extraor-

dinary powers," including provisions for crushing anti-government propaganda and censoring the press. These powers were first granted on May 6, 1933 and were renewed by the Chamber of Deputies on December 13. Prominent opponents of the régime have been exiled. General Ibáñez was "requested" to leave the country and Colonel Marmaduke Grove was arrested and banished to southern Chile. On January 2, 1934 the government announced that a revolutionary plot had been discovered involving both of these leaders. Complete stability, it is evident, has by no means yet been established. This is due in part to the fact that the continuing unrest has social as well as political causes. The strength of communism among the workers and the growth of so-called Fascism on the right have created acute social tension. President Alessandri, although himself now inclining to the conservatives, has endeavored to maintain an equilibrium between the extremists of both groups—an effort whose final result is still in doubt. A sketch of the rise of these right and left movements may aid in understanding the present situation.

Industrialization was accompanied by a development of labor organization, which has furnished the principal support of Chile's growing radicalism.¹⁷ Although mutual benefit societies—of a type common among artisans in all Latin-American countries—were formed in Chile as early as the

14a. Carlos Dávila, "The Revolution of June 1932" (manuscript furnished the Foreign Policy Association by the author).

15. *La Opinión* (Santiago), May 3, 1932. His program suggested control of major economic activities by state-organized companies in agriculture, mining, industry, transportation, public utilities and commerce. These bodies were to be coordinated by an Executive National Committee and an Advisory Economic Council.

16. Grove was in exile during the campaign and returned to Chile only on the day of the elections.

17. Sentiment favoring economic and social reform has not been confined to the laboring masses. During the Ibáñez régime, many of the younger army officers were regarded as radical. Subsequently Communist ideas spread widely among the primary school teachers.

middle of the nineteenth century, the labor movement did not take its modern form until 1909, when the "Federation of Labor of Chile" was organized. This body, the country's most important labor group, gradually moved to the left and in 1921 affiliated with the Third International, becoming openly Communist in its orientation and advocating the abolition of the capitalist system. In the same year the occupational or trade basis of its organization was replaced by a system of industrial councils, which joined in one union skilled, unskilled, and salaried workers. By 1928 the Federation could claim 136,000 members, among whom the miners represented the most important contingent. There were 30,000 members among nitrate workers, 20,000 among copper and iron miners, and another 8,000 among coal miners. The railroad and construction unions were also strong.¹⁸

The growth of "Fascism"

Following the overthrow of the Montero government, fear of militarist influence and also of left-wing forces led to the organization of a Republican Militia or "White Guard," representing chiefly the middle and upper classes. This movement now claims a membership of 40,000 and has been a strong factor in the support of the Alessandri régime. Its adherents are sworn to support the constitution, their oath including a pledge to die if necessary to defend the "system of democratic republican government," and to "combat all tyranny, be it Communist, civil or military."¹⁹ On May 7, 1933 the Militia held a parade in Santiago, with cavalry and artillery units supplementing the infantry sections. The troops, well-drilled and uniformed, were equipped with machine guns, armored trucks, airplanes and other armament.

Although at first termed a Fascist movement, the Republican Militia later disowned the title and announced itself a "constitutional protective society." The Fascist label, however, was subsequently adopted by a more extreme organization, the National Socialists or *Nacistas*, who represent a Chilean nationalist movement which has borrowed ideas from both German and Italian sources. Their strength is less than that of the Militia, perhaps not more than 10,000 members. Originally the two groups were friendly and had to some degree an interlocking member-

ship. They have now become bitter political enemies. While the Militia supports the maintenance of constitutional government and is on good terms with existing conservative parties, the *Nacistas* seek the eventual establishment of a Fascist régime. The government, for its part, looks favorably on the Militia but is hostile to the *Nacistas*. Frequent clashes have taken place between the *Nacistas* and Communists.²⁰

Strong opposition has also developed to the intimate relation of the government with the Republican Militia. The review by President Alessandri of that body's first parade led to a cabinet crisis. The left parties voiced energetic criticism, and Premier Horacio Hevia resigned. Jealousy has arisen in the army. On December 14, 1933 the Inspector General of the army, General Pedro Vignola, made public a letter addressed to the Minister of Defense, protesting against certain activities of the Militia—an action which resulted in his enforced resignation. Three days later the Guard held parades in all the important cities of the country, the demonstration in Santiago being reviewed by Finance Minister Gustavo Ross. This event climaxed a year of training. It was then announced that the Militia would suspend its activities for two months.²¹

AGRARIAN REFORM

The conservative landowners supported Alessandri in the 1932 elections in the hope that his former popularity among the nitrate workers might enable him to check the industrial discontent which was beginning to affect the agricultural laborers. In the past the nitrate fields had provided a valve of escape for the excess population in central Chile unable to find occupation because of the prevailing *latifundismo*, or system of large estates. Thus, agrarian unrest was largely avoided. With this valve now almost entirely closed, agitation for land reform threatens to become more acute.

At best Chile's available agricultural land is limited. The northern third of the country is desert, and much of the southern third is too broken in surface and too bleak in climate for successful farming. It is estimated that only 10 per cent of the republic's area is markedly favorable to agriculture, and most of this is monopolized by rich landlords. As late as 1925, 2,576 owners held almost 80 per cent of the area included in the country's rural properties.²² In the central province of Santiago three-fourths of the total area included in rural holdings was occupied by 51 properties, none of which was less than 5,000 hectares in extent. Meanwhile the great bulk

18. In addition there was a Catholic Labor Confederation, advocating the principles of Christian Socialism, with 7,000 members. The I. W. W., whose doctrines had found acceptance principally among maritime workers, claimed 9,000 adherents. There was also a Salaried Employees Union with 7,000 members. For a discussion of the growth of the Chilean labor movement, cf. Moisés Poblete Troncoso, "Labor Organization in Chile," U. S. Department of Labor, Bureau of Labor Statistics, Bulletin No. 461 (Miscellaneous Series), October 1923 (Washington, Government Printing Office, 1923), p. 1-41.

19. For detailed information on the Militia, cf. *El Mercurio* (Santiago), May 7-8, 1933.

20. For further details on the Militia and the *Nacistas*, cf. *New York Herald Tribune*, September 6, 1933.

21. *El Mercurio*, December 15, 18, 1933.

22. 20,321,623 hectares out of a total of 25,679,107. Cf. *Anuario Estadístico de la República de Chile*, Vol. 7, Agricultura, Año 1925-1926, p. 13. A hectare is equivalent to 2.47 acres.

of the agricultural population was either landless or restricted to holdings too small for profitable cultivation.²³

Since 1924 the country has sought to effect agrarian reform through a program calling for colonization of remaining public lands, extension of irrigation, provision of rural credits, clearing of titles, abolition of Indian communal holdings, and development of agricultural cooperatives. In 1928 an Institute of Agricultural Colonization was founded to forward the establishment of colonies, and the President was empowered to expropriate necessary lands on grounds of public utility. To date, however, the few colonies started have attained only limited success, and progress in breaking up the large estates has been slow.²⁴

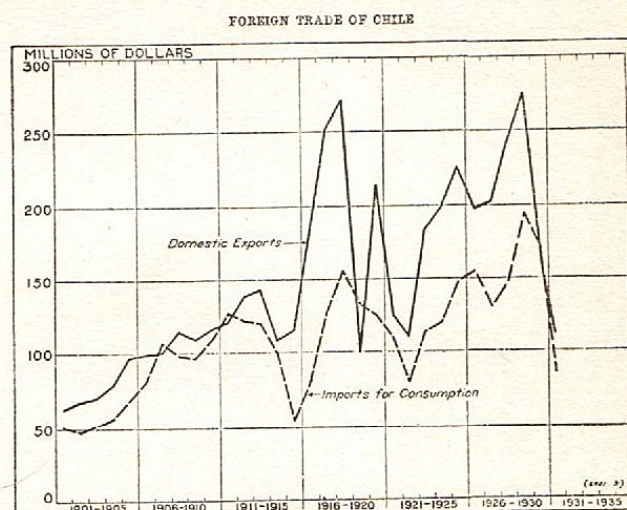
ECONOMIC RECOVERY AND FOREIGN TRADE

A considerable degree of economic recovery has been achieved during President Alessandri's first year. Unemployment has been markedly reduced,^{24a} largely owing to the development of the new industry of alluvial gold-washing made profitable by the decline in the value of the peso. Inflation, which during 1932 had approximately doubled the currency in circulation, was checked—thus restoring confidence in national finances. A balanced budget was announced. The collapse of the country's exports had produced an enormous decline in imports; demand for native products was thus increased, and domestic industries stimulated.

The attainment of self-sufficiency, however, is peculiarly difficult for Chile, since its economic life depends to an unusual degree on foreign trade.²⁵ This trade is dominated not by agricultural but by mining products—chiefly nitrate and copper—which jointly constitute from 70 to 80 per cent of the country's exports. While the relative proportion of nitrate in foreign trade has been declining, that of copper has been increasing, so that the predominant position of the two taken together has not been materially affected. It should further be noted that the production of both these articles is governed by foreign capital. United States investments control practically the entire cop-

per output, and share with British capital dominance in the nitrate industry.²⁶ The course of Chile's foreign trade is largely determined by the fortunes of two exports whose production, controlled from New York and London, must adjust itself to the condition of the world market. Chile is therefore not in a position to exercise much influence over this phase of its economic life.

Its foreign trade has consequently been subject to a series of disastrous ups and downs, due to marked variations in the world demand for its two principal products. The accompanying chart, which suggests a seismograph, clearly displays these fluctuations.



Commerce Year-book, 1932, Part II, p. 381.

Because of the dominant position of foreign trade in the country's economy, these variations exercise a profound influence on the whole of national life. The exports of nitrate and copper have provided Chile with the foreign exchange with which to purchase its imports.^{26a} A large share of the government revenue has come from export duties on nitrate and iodine. Both agriculture and industry profit heavily from that part of their production which is sold to the workers in nitrate and copper—80,000 normally finding employment in these industries. Consequently when the price and consumption of these commodities decline on the world market, Chile's mining activities are at once affected,²⁷ with the result that industrial and agricultural production suffers, consumption

23. In Aconcagua province the 3,895 smallest rural properties totaled only 3,715 hectares, and in Valparaíso province 1,517 properties occupied but 2,024 hectares. Cf. George M. McBride, "The Agrarian Problem in Chile," *Geographical Review* (American Geographical Society of New York), October 1930, p. 574-586.

24. For a discussion of Chile's program of agricultural reform, cf. *ibid.* Keller in *La Eterna Crisis Chilena* (cited, p. 259-291) describes and criticizes the colonization program.

24a. The number of registered unemployed declined from 123,200 in December 1932 to 58,500 in July 1933. Cf. *Estadística Chilena*, August 1933.

25. It is estimated that normally for every \$100 per capita of domestic commerce in Chile there is \$90 per capita of foreign commerce, while in the United States the figures are \$750 and \$75 respectively. That is, the ratio between domestic and external trade in Chile is 10 to 9; in the United States, 10 to 1. (Corporation of Foreign Bondholders, *Fifty-Ninth Annual Report*, 1932, London, p. 139.)

26. At the end of 1928 American capital comprised 98.4 per cent of the total invested in mining and smelting. Fuenzalida, "The Industrial Progress of Chile," cited, p. 41. For an illuminating analysis of the special characteristics of Latin-American commerce, cf. Frank Tannenbaum, *Whither Latin America?* (New York, Crowell, 1934), Chap. IV.

26a. Because of foreign ownership of copper and nitrate, these two exports furnish exchange, not to the value of the product exported, but only for labor costs in Chile, materials purchased in the country and taxes.

27. Stimulation of domestic demand cannot be used to cushion the effects of decline abroad. Chile consumes an insignificant proportion of the nitrate and copper it produces. In 1931, of a total nitrate consumption of 1,316,556 tons, only 4,285 tons were used in Chile. Cf. *Chile Pan-Am* (New York), June 1932, p. 65.

of goods diminishes, and governmental income is reduced.²⁸

THE NITRATE PROBLEM

The production of nitrate has played so paramount a rôle in Chilean life during the last half century, and the industry is now faced with such revolutionary changes, that particular attention must be given to this problem. For half a century Chile's prosperity has been founded largely on its nitrate industry. Since 1880 the government has derived an average of 43 per cent of its total revenues from nitrate, and in some years the proportion has risen almost to 70 per cent. As Chile possessed the world's only considerable deposits of natural nitrates, the industry enjoyed a monopoly position and was able to set the world price. Following the World War, however, synthetic nitrogen production rapidly developed, and this competition sharply diminished Chile's proportionate share in the world market. While in 1894 Chile furnished 73 per cent of total world production, this figure had been reduced to 57 per cent by 1912, 35 per cent by 1924, and 5 per cent by 1932-1933.²⁹ This downward trend, evident before 1929 but accentuated by the world depression, confronted Chile with the necessity of radically reorganizing its whole economic life and particularly its system of governmental revenue. The bonanza period for the country and its nitrate industry appeared definitely to have ended.

WORLD PRODUCTION OF NITROGEN³⁰
(in metric tons)

Year	World Total	Chile	Per cent of Total
1924-25	1,061,000	372,000	35.1
1925-26	1,303,000	406,000	31.2
1926-27	1,264,000	203,000	16.1
1927-28	1,678,000	393,000	23.4
1928-29	2,062,000	508,000	24.6
1929-30	2,200,000	462,000	21.
1930-31	1,688,400	246,700	14.6
1931-32	1,553,000	169,300	10.9
1932-33	1,500,000	70,800	4.7

Chile's nitrate riches lie in the arid north, chiefly in the provinces of Tarapacá, Antofagasta and Atacama. Deposits are found scattered over an area nearly 400 miles in length, at an altitude of 2,500 to 8,000 feet above sea-level. Although exports of Chilean nitrate began in 1830, shipments were small during succeeding decades, for the use of nitrate as an agricultural fertilizer spread

slowly. In the War of the Pacific, 1879-1883, Chile wrested from Peru and Bolivia the provinces of Antofagasta, Tarapacá, Arica and Tacna, thus placing in its own hands practically all the nitrate deposits of South America's west coast. From 1880 the industry grew rapidly; in 1890 exports passed 1,000,000 tons, and in 1908 2,000,000.³¹

The World War, with its increased demand for nitrogen in the manufacture of explosives, impressed governments with the necessity of national self-sufficiency in this product. Germany, once Chile's best customer, early led the way in synthetic development. Other countries followed its example, and each laid plans for expanding its own production.

The Nitrogen Rush

In 1927 began what has been called the "Nitrogen Rush"—an era of feverish expansion of production motivated by nationalist rivalries and by an orgy of uncontrolled individualist enterprise within national boundaries. Huge and expensive plants were built. Of the eight countries which, generally speaking, account for three-fourths of the world's nitrogen consumption—Germany, the United States, France, Japan, Belgium, Holland, Great Britain and Italy—only Germany was self-sufficient in 1926. By 1932 the others, with the possible exception of Italy, had become virtually if not actually self-supporting by the development of synthetic production, and some were producing a surplus for export.

Meanwhile, Chile—or, more exactly, United States capital in Chile—had also been promoting expansion in nitrate production. In 1920 the firm of Guggenheim Brothers, which had previously spent \$50,000,000 in developing its famous Chilean copper properties, became interested in nitrates. Equipped with an improved process for treating the ore,³² they acquired control of two British enterprises—the Anglo-Chilean Nitrate and Railway Company, Ltd., and the Lautaro Nitrate Company, Ltd. Two immense modern plants, the María Elena and the Pedro de Valdivia, were constructed—with a combined capacity of 1,250,000 tons of nitrate. As a result of these developments—both in Chile and in the countries of synthetic manufacture—world production and particularly world productive capacity far outran consumption. Whereas consumption had shown a definite increase, it did not exceed 2,000,000 tons of pure nitrogen even

28. Cf. Keller, *Un País al Garete* (Santiago, Editorial Nascimento, 1932), p. 35, 36.

29. Cf. Mariano Riveros Cruz, *La industria salitrera frente al proyecto de ley sobre Corporación de Ventas de Salitre y Yodo* (Santiago, Talleres Gráficos "La Nación," 1933), p. 6, and "Nitrogen," *Fortune* (New York), August 1932, p. 48.

30. Riveros Cruz, *La industria salitrera frente al proyecto de ley sobre Corporación de Ventas de Salitre y Yodo*, cited, p. 6. In interpreting statistics, note must be taken whether they refer to nitrogen or nitrate. Approximately 6½ tons of Chilean nitrate have a nitrogen content equivalent to one ton of pure nitrogen.

31. Yearly export figures from 1830 to 1929 are given in Roberto Hernández C., *El Salitre (Resumen histórico desde su descubrimiento y explotación)* (Valparaíso, Fisher Hnos., 1930), p. 173.

32. For a description of the technical details of the Shanks and Guggenheim processes, cf. Harry A. Curtis, *Fixed Nitrogen* (New York, Chemical Catalogue Company, 1932), Chap. III.

in 1929-1930, while productive capacity had been increased to almost 4,000,000 tons.³³

Although Chile's proportionate share in world production had declined heavily before 1929, the country had felt few ill effects; its actual output had been substantially maintained, and the world price, due to increasing consumption, had not suffered an excessive decline. But the world depression brought a precipitous fall in both production and price.³⁴ As a result, Chile's nitrate production, which in 1924-1925 was valued approximately at \$115,000,000, was worth only \$9,350,000 in 1932-1933.

By 1930 the position of the government, of the bankers financing the producing companies and of the Guggenheim interests predisposed them all to favorable consideration of a project for reorganizing the industry. Owing to overproduction, a partial shut-down was apparently called for, but this would not only have curtailed government revenues from the export tax, but brought on unemployment. The banking interests, chiefly the Anglo-South American Bank, Ltd., were nervous about their advances both on nitrate stocks and on the plants themselves. The Guggenheim Anglo-Chilean Consolidated Nitrate Corporation had shown losses up to 1929 amounting, after depreciation and depletion, to \$10,000,000 U.S. gold.³⁵

The Cosach Venture

Negotiations initiated by the Chilean government under President Ibáñez with the principal producing companies resulted in a plan for a single consolidated enterprise, in which the government would hold 50 per cent of the shares. This came to be known popularly as *Cosach* from the first syllables of its name, *Compañía de Salitre de Chile*. It was hoped that such a consolidation would achieve two results which, by lowering the selling price of Chilean nitrate, would improve its position in the world market: (1) reduce the costs of production by unifying control of the industry and concentrating production in the two large-scale and low-cost Guggenheim plants; and (2) eliminate the burden of the government export tax which since 1897 had amounted to \$12.33 U.S. gold per metric ton. The plan, which became law on July 21, 1930,³⁶ called for a corporation with capitalization of approxi-

mately \$365,000,000 divided into 15,000,000 Series A and 15,000,000 Series B shares, of a par value of 100 pesos each. The Series A shares were issued to the government of Chile, in recompense for the transfer of government-owned nitrate reserves containing up to 150,000,000 tons of recoverable nitrate—or at the rate of 10 pesos a ton—and for the abrogation of export duties, together with various other benefits and concessions. The Series B shares were issued to the producing companies in return for their assets and stock. Of these shares, approximately 10,000,000 ordinary shares similar to those of Series A went to the Guggenheim interests; 5,000,000, however, could be Cumulative Preferred Shares drawing 7 per cent interest, and these were issued to the other operating companies.³⁷ During a transition period from 1930 to 1933, the government was guaranteed a minimum revenue averaging slightly over \$20,000,000 a year.

The acquisition of the numerous producing companies, including Anglo-Chilean and Lautaro and representing more than 95 per cent of the producing capacity of the industry, was completed in August 1931. In the spring of 1932, however, conditions in the industry had become so unfavorable that service on all funded debt was suspended save that of certain Prior Secured Bonds of an international loan. Plans for the reorganization of the industry, including a scaling down of the capital obligations of the companies and their annual debt service, were hindered by the political instability of the country.

The organization of *Cosach* had been hailed as establishing the largest industrial corporation ever formed in South America. Although complete government ownership was avoided, participation of the state as stockholder in the enterprise placed it in a position to influence the development of the industry from the inside and not by external regulation alone. This arrangement was regarded as an important innovation in industrial legislation. The alliance of the government with the Guggenheim interests promised Chile, it was thought, the advantages of more centralized and efficient production and distribution in its competition with producers of synthetic nitrogen. In addition the country was expected to profit from the technical organization developed by the Guggenheims and from more favorable relations with international bankers.

33. Capacity for synthetic production is estimated at 3,500,000 tons of nitrogen and that of the natural production of Chile at 420,000 tons. With the prevailing depression only about one-third of this world capacity is being exploited.

34. Chile's production in terms of pure nitrogen declined from 372,000 tons in 1924-1925 to 71,000 in 1932-1933, while in the same period the price per ton of nitrate in Chilean port fell from \$49.17 to \$20.80. Cf. Riveros Cruz, *La industria salitrera frente al proyecto de ley sobre Corporación de Ventas de Salitre y Yodo*, cited, p. 6. 16.

35. United States Senate, Committee on Finance, 72nd Congress, 1st Session, *Hearings on Sale of Foreign Bonds or Securities in the United States* (Washington, Government Printing Office, 1932), Part IV, p. 2054.

36. Law No. 4863. For Spanish text, cf. República de Chile, *Diario Oficial* (Santiago), Número 15728, July 21, 1930; for English text, cf. *Hearings on Sale of Foreign Bonds or Securities in the United States*, cited, Part IV, p. 2069-2077.

37. Due to restrictions in the capital structure of the two Guggenheim enterprises, a complete exchange of shares did not take place in their case and both these companies entered *Cosach* as subsidiary rather than constituent companies. (These subsidiary companies were legalized by Law No. 12 of February 24, 1931). *Cosach* consequently became mainly a holding company for Lautaro common and Anglo-Chilean stock.

Despite the alleged benefits of the new corporation, it was severely attacked in Chile. Depression in the industry had brought extensive unemployment to labor and loss of the northern markets to agriculturists. These groups found common cause with opponents of the Ibáñez régime in criticism of the *Cosach* venture. Politically the plan was denounced as involving alienation of the national patrimony. The development of nitrate in Chile had been so closely linked with the country's growth and expansion as to make it an object of intense patriotic concern. For Chile to lose control of the industry meant to many a threat to national sovereignty. The government's partnership with industrial interests representing predominantly foreign capital aroused profound resentment. The terms of the partnership also evoked criticism. The entire nitrate reserves of the state were placed at the service of the company, which was granted the right to extract a total of 150,000,000 tons. At an estimated price of 10 pesos a ton, this item alone covered the value of the 1,500,000,000 pesos of government shares. In addition the state, for the 60 years of the *Cosach* agreement, renounced its export tax which for many years had brought a return of no less than 200,000,000 pesos annually. It was expected that profits from the Series A shares would compensate the government for this loss, but the state was given no guarantee of an adequate return beyond the first four years of the agreement.³⁸

Economically the *Cosach* plan was assailed on the ground of overcapitalization, which necessitated carrying charges so heavy that they could only be maintained if exports totaled two and a half to three million tons a year, and price did not fall below \$40 U.S. gold per ton.³⁹ But in 1930-1931, the year in which *Cosach* was organized, sales totaled only 1,550,000 tons and the price had fallen to \$32. Subsequently, both production and price suffered further declines. Overcapitalization resulted, it was charged, from an exaggerated value placed on the Guggenheim process and plants, and from the "watered" stocks and questionable condition of many of the other companies as profit-producing enterprises.⁴⁰

38. A detailed criticism of the *Cosach* plan is given in the report of November 5, 1931, issued by the subcommittee of the congressional committee investigating the acts of the Ibáñez dictatorship, and published in *El Mercurio* (Santiago), November 8, 1931. For an English translation, cf. *Hearings on Sale of Foreign Bonds or Securities in the United States*, cited, Part IV, p. 2050-2067. This report is not to be confused with that of the less partisan technical committee, dated December 5, 1931 and published in *El Mercurio* on December 17; English version in *Hearings*, cited, p. 2067-2069. Many of the charges in the first report were answered in a series of articles by Rodolfo Jaramillo B., former Secretary of the Treasury, published in *El Mercurio*, November 10-19, 1931; and by a statement from Ricardo Ayala, Superintendent of Nitrates, in *El Mercurio* of November 15, 1931.

39. Keller, *Un País al Garete*, cited, p. 119.

40. The report of the technical committee investigating *Cosach* found that the debts of the company had been "markedly increased by the acquisition of part of the assets of certain com-

panies, by bonds delivered to the treasury in payment of their quotas for the years 1932 and 1933, and by the transfer of the credit of Guggenheim Brothers against the Anglo-Chilean for \$5,577,724 which should not figure in the liabilities of *Cosach* but in those of the Anglo-Chilean." *Hearings*, cited, p. 2068.

It was also charged that the Guggenheim interests benefited disproportionately in the plan, and that the technical advantages claimed for the Guggenheim process were exaggerated. Critics suggested that the capital necessary for machinery and equipment meant enlarged overhead charges which might conceivably add more to the cost of production than increased efficiency would save. On this basis, they pointed out, the danger that the heavy indebtedness which the Guggenheim enterprises carried might make these properties, when transferred to *Cosach*, a liability rather than an asset.

It was further asserted that the *Cosach* plan threatened harmful consequences to the economic and social organization of the country. Mechanization of production in the Guggenheim plants made it possible for 20,000 men to do the work which formerly had required 60,000. Concentration of operations in these plants, therefore, would throw 40,000 men out of employment. This would result, it was alleged, not only in the ruin of commerce and the devalorization of property in the nitrate districts of the north, but also bring on agricultural depression in the central and southern parts of the country, due to the decline in demand from the nitrate fields. This decline in consumption would decrease freight shipments, thus adversely affecting the country's railroads and merchant marine.⁴¹ Other criticisms of the plan concerned the expenses, alleged to have been excessive, connected with the organization of the company and charges that the legislation authorizing its formation was unconstitutional.

Reorganization of the industry

The Alessandri government which came to office in December 1932 had been elected on a program calling for the dissolution of *Cosach*. As its first official act, it issued an executive decree⁴² ordering dissolution of the company and return to the government of its nitrate reserves. The company was thus placed in liquidation. On July 4, 1933 President Alessandri presented to Congress a bill which, after long continued debate, resulted in the law of January 8, 1934. It provided for reorganization of the nitrate industry and es-

panies, by bonds delivered to the treasury in payment of their quotas for the years 1932 and 1933, and by the transfer of the credit of Guggenheim Brothers against the Anglo-Chilean for \$5,577,724 which should not figure in the liabilities of *Cosach* but in those of the Anglo-Chilean." *Hearings*, cited, p. 2068.

41. *Hearings*, cited, p. 2052. A trend toward concentration in production was well under way long before *Cosach* was envisaged. Although the number of active producing plants increased from 55 in 1900 to 134 in 1913, it had decreased to 69 by 1924. (Keller, *La Eterna Crisis Chilena*, cited, p. 213.) In September 1930, 32 plants were operating, employing 52,000 men, but by November 1931 producing plants were limited to 6, employing 20,000 men. In August 1933 only 7,600 workers were employed.

42. Decree No. 1, January 2, 1933, of the Ministry of Finance. Complete Spanish text is given in Banco Central de Chile, *Anexo al Boletín Mensual* (Santiago), No. 65, July 1933, p. 1.

establishment of a Chilean Nitrate and Iodine Sales Corporation.⁴³ This corporation has nothing to do with production, but is granted the exclusive right for 35 years to purchase nitrate and iodine from the producers and to sell and distribute them in the world market. Of the eleven directors of the corporation, five are to be government representatives and five to be elected by the producing companies,⁴⁴ while the eleventh—who will be the president of the corporation—is to be named by the other ten directors. The government directors are granted special powers, their approval being necessary for fixing purchase and sales prices, and establishing sales quotas. Purchases are to be made from the producers on the basis of "industrial cost," excluding any allowance for amortization of plant, depletion of reserves, or service on bonds or other capital charges (except for a fixed payment of \$1.50 U. S. currency per ton). Three-fourths of the profits of the corporation will go to the producing companies^{45a} and one-fourth to the government, in return for which the producers are exempt from export duties and income and other taxes. The government is assured a fixed payment of 140,000,000 pesos for 1933. The bill also provides for reorganization of *Cosach*, its separation from the two Guggenheim subsidiary companies, and the withdrawal, if desired, of other producing enterprises. The new plan is regarded as offering more advantages to the government than the *Cosach* agreement. The state is relieved of any obligation to deliver its nitrate reserves to the producing companies and remains free to dispose of such lands as it sees fit. The government is no longer a partner in the industry. If profits are made, it automatically receives 25 per cent and is not dependent, as in the *Cosach* agreement, on dividends from its shares.⁴⁵

Many students of the nitrate question feel that the present bill materially improves the ability of the Chilean industry to compete with synthetic nitrogen.^{45a} Export duties are eliminated, the tax burden markedly reduced and capital charges scaled down. Synthetic production, none the less, possesses several apparent advantages. The present vogue of economic nationalism may mean increased protection for the synthetic product against the importation of Chilean nitrates.⁴⁶ Synthetic nitrogen, moreover, is produced near

the points of consumption, thus saving the cost of long ocean hauls.

The formation of an international cartel might serve to mitigate competition and assure to Chile some definite share in the world market, but past efforts to this end have been handicapped by difficulties over the export quotas allotted.⁴⁷ It is evident in any case that the half century of financial ease which nitrate exploitation brought to Chile has definitely ended. Both the industry and the country face the necessity of adjustment to new and more difficult conditions.⁴⁸

DEBT DEFAULT

On August 18, 1931 Chile declared a complete moratorium on its foreign debt. Suspension of payments ultimately affected not only the direct obligations of the central government totaling \$338,000,000, but also the government-guaranteed debt of certain enterprises, principally the Mortgage Bank, aggregating \$99,000,000, and municipal loans of a value of \$20,500,000. According to the government's statement:

"In the last four years the country has fundamentally changed its policy of prudent and normal economic development, having made excessive use of credit, and having increased its ordinary expenditures beyond its capacity to meet them."⁴⁹

This statement referred to the financial policies of the Ibáñez régime, which during its term of office had increased the country's public debt by approximately \$186,000,000, or 82 per cent. The bulk of this money went to meet the expenditures of the extraordinary budget, which between 1928 and the end of 1930 were as follows:⁵⁰

reserves of nitrate recoverable by the Shanks process at 460,000,000 tons; if the Guggenheim process were applied, the figure would be increased to 1,150,000,000 tons. *El Mercurio* (Santiago), November 13, 1931. Other estimates indicate that the supply of workable nitrate is sufficient for another century and perhaps longer. Cf. Curtis, *Fixed Nitrogen*, cited, p. 16.

46. Carlos Keller points out that although economically his country's nitrate is largely a product of United States capital, "politically" it is Chilean, and so excluded from any benefits that a program of economic nationalism in the United States may bring to North American products. Cf. *Un País al Garete*, p. 53.

47. In the summer of 1929 an agreement with the Chilean nitrate industry, primarily on maintenance of prices, was reached by German, British and Norwegian producers. Since neither production nor markets were regulated, however, the agreement proved of little importance. On August 7, 1930 an accord signed at Berlin widened the scope of the arrangement to include all the synthetic nitrogen industries in Europe, thus representing about 80 per cent of world capacity. The United States and Japan alone remained outside. The accord was not continued for more than a year, negotiations at Lucerne in 1931 resulting in a breakdown. In the summer of 1932 a third agreement was achieved by European interests, reserving sales on home markets to domestic producers and fixing quotas for exports. This has not yet been ratified by Chile. On the history of these negotiations, cf. Guillermo A. Suro, "Reorganization of the Chilean Nitrate Industry," *Bulletin of the Pan American Union* (Washington, D. C.), p. 520-527; and *Index* (Svenska Handelsbanken, Stockholm), October 1933, p. 205, 206.

48. Copper, the republic's second principal export, has been the victim of conditions largely similar to those affecting the nitrate industry. With world demand for copper sharply curtailed by the depression, Chile's production between 1929 and 1932 was reduced two-thirds, and at the same time the price per pound of copper fell from 18 to 5.6 cents. *Year Book of the American Bureau of Metal Statistics, 1932* (New York), p. 9, 40. The price is that in New York.

49. Note from the Minister of Finance to the Minister of Foreign Relations, *El Mercurio*, August 20, 1931.

50. Institute of International Finance, *Bulletin No. 47* (New York), November 6, 1931, p. 11.

43. Law No. 5350, *Diario Oficial* (Santiago), No. 16767, January 8, 1934.

44. Three of these are to be named by the Guggenheim enterprises. Of the government representatives, three are appointed by the President, one is the Superintendent of Nitrates and one Councillor of the Central Bank.

44a. Although these profits are first subject to the service at a reduced rate of the *Cosach* Prior Secured Bonds approximating \$49,000,000, plus a new issue of bonds to cover \$3,000,000 cash advances made by Guggenheim Brothers.

45. Cf. Medley G. B. Whelpley, "The Chilean Nitrate Problem, a Review of Recent Events" (manuscript furnished to Foreign Policy Association by the author).

45a. It need not fear any premature exhaustion of reserves. Former Finance Minister Rodolfo Jaramillo places the

Public works, including railways, build- ings, ports, etc.	\$90,000,000
Army, navy, and national defense	43,650,000
Pensions	4,200,000
Debt refunding	15,100,000
Government investments, subventions, etc.	14,275,000
Indemnity to Peru	5,863,000
Miscellaneous	2,359,000
Total	\$175,447,000

At the moment of default, Chile lacked not only the capacity to meet its obligations in national currency, but also the foreign exchange necessary to transfer those payments abroad. In 1930 the ordinary revenues of the government totaled 1,132,800,000 pesos and the ordinary expenditures 1,131,500,000, leaving a small but insignificant surplus. In 1931, although expenditures were cut to 822,900,000 pesos, revenues declined to 783,800,000, which meant a deficit of 39,100,000. To this it was necessary to add 97,400,000 pesos for pending accounts of the extraordinary budget. Had these deficits been covered and the debt service continued only on the external consolidated debt (a charge of 107,000,000 pesos), it would have been necessary to reduce ordinary expenses to 540,300,000 pesos, or a cut of 52 per cent from the level of the previous year.⁵¹ Such a policy in a country of the economic structure of Chile would only have resulted in serious social disturbances.

But even had Chile possessed the requisite capacity to pay, the foreign exchange essential for the transfer of payments abroad was lacking. Previous to the depression, it had been estimated that the country could maintain service on its commitments, both public and private, if its foreign trade left a favorable balance of 600 to 700 million pesos. In May 1931 the Central Bank of Chile made a preliminary estimate of the balance of payments for the country for the second half of the year, which showed debits of 984,000,000 pesos and credits of 582,000,000, or a deficit of 402,000,000 pesos.⁵²

This estimate, however, proved optimistic, for exports which had been estimated at 500,000,000 actually totaled only 345,000,000 pesos. The only way to cover the deficit in the balance of payments would have been to use the gold reserves of the Central Bank. But from October 1928 to the middle of 1931 these reserves had been reduced from 615,000,000 pesos to 195,000,000.⁵³ Had this re-

maining balance been used, however, it would not have served to cover even one-half of the visible deficit. This decline in Chile's foreign trade continued well into 1933, when an upturn became apparent.⁵⁴

Moreover, to the difficulties existing in 1931, another was subsequently added with the depreciation in the external value of the Chilean peso. From a quotation of 12 cents U.S. gold, it fell in June 1932 to a value of 6 cents and somewhat later to a low of 11½ cents, or 80 pesos to the dollar. It has subsequently risen—partly because of internal measures, such as the balancing of the budget and the stemming of inflation, and partly because of the fall in the dollar—to a value of approximately 4 cents, although the official Central Bank rate quotes the peso at 9 cents. No foreign exchange is available, however, at the official rate.

Resumption of payments on Chile's external debt, which would require \$40,000,000 annually, is blocked by three factors: (1) a precipitous decline in the country's exports which has wiped out for the time being the possibility of an adequate favorable balance of trade; (2) an internal depression resulting in a straitened national budget; and (3) depreciated foreign exchange. Improvement in the second and third factors is largely dependent on the first, but this latter can be brought about only by better markets for Chile's nitrates and copper—a development primarily dependent on factors beyond the control of domestic policies. The government by recent action has not only recognized the fundamental connection between export trade and debt payments, but has made the relationship a direct one. In the 1934 budget the government for the first time in more than half a century receives no revenue from nitrate taxes, but the profits which may accrue to the state from the new Sales Corporation will be utilized, it is announced, for the service of the external debt.⁵⁵ As has been pointed out, however, the prospects for Chilean nitrates are not such as to warrant unduly optimistic expectations. It seems probable that not only must world economic conditions improve, but that Chile's foreign obligations must be substantially scaled down before any resumption of the debt service can be initiated.

54. The figures for Chile's foreign trade in 1929-1932 are as follows:

Year	Exports	Imports	Total
	(in millions of pesos)		
1929	2,293	1,618	3,911
1930	1,328	1,400	2,728
1931	823	706	1,529
1932	290	213	503

Estadística Chilena (Santiago), July 1933, p. 229. A comparison of the first eight months of 1933 with those of 1929 showed declines of 89 per cent in imports and 86 per cent in exports.

55. According to the President's message to Congress of May 21, 1933, and the declaration of the Minister of Finance in the Budget Bill for 1934. Banco Central de Chile, *Boletín*, cited, p. 228-229.

51. Banco Central de Chile, *Boletín Mensual* (Santiago), No. 67, September 1933, p. 227.

52. *Ibid.*, p. 226.

53. "In spite of the large development of her foreign trade in 1929 and the considerable amount of loans contracted at that time abroad and which entered the country up to 1930, the balance of payments of Chile remained unfavorable, and it had not been possible to equilibrate it by any means of economic policy (increase of the Customs tariffs) or of monetary policy (increase of interest rates and the restriction of credit)." *Ibid.*, p. 226.